

**Opening Statement of William H. Brewster
Director of Anti-Fraud Initiatives, Fannie Mae
HOEPA Public Hearing
Board of Governors of the Federal Reserve System
June 14, 2007**

Thank you for inviting me to participate in this hearing. My name is Bill Brewster and I am Director of Anti-Fraud Initiatives for Fannie Mae. My unit is responsible for Fannie Mae's mortgage fraud investigations, analysis and reporting, as well as outreach to the industry and law enforcement on mortgage fraud matters.

Fannie Mae's regulator, the Office of Federal Housing Enterprise Oversight, defines mortgage fraud as "a material misstatement, misrepresentation or omission relied upon by an Enterprise to fund or purchase – or not to fund or purchase – a mortgage..." Details related to Fannie Mae's mortgage fraud statistics are documented in a monthly Fraud Update newsletter available on our industry-facing website, eFanniemae.com. A copy of our May issue accompanies this statement. (<https://www.efanniemae.com/utility/legal/pdf/fraudupdate0507.pdf>)

Over the past two years, we have seen an increase in mortgage fraud incidents – especially those involving mortgages and properties in the upper Midwest. For loans originated in 2005-2006, the upper Midwest and Southeast regions each account for about one-third of our fraudulent loans. Income misrepresentation remains the most common type of fraud we find, followed by fraud related to the subject property and its appraised value. Our mortgage fraud statistics track closely those reported by other entities, including the Mortgage Asset Research Institute (<http://www.mari-inc.com/pdfs/mba/MBA9thCaseRpt.pdf>) and the FBI. (http://www.fbi.gov/publications/financial/fcs_report2006/financial_crime_2006.htm#Mortgage)

An alarming number of Fannie Mae's recent investigations have found that otherwise honest consumers and real estate professionals are fooled into conspiring to commit mortgage fraud. Mortgage fraud perpetrators are highly imaginative, and they are often involved in other organized criminal activity, including drug trafficking, money laundering and terrorist finance. They are highly motivated to take advantage of naïve individuals. In one case we are currently investigating, an attractive website uses religious overtones to lure consumers with comforting promises of credit repair, mentoring and homeownership. In reality, the website is operated by an LLC that specializes in buying foreclosed properties and flipping them to homebuyers at inflated prices, using falsified asset and appraisal documentation. To make matters worse, the LLC is owned by the originating loan officer. Consequently, the loan officer collects both the normal commission and excessive sales proceeds on each loan. The loans are subsequently sold on the secondary market to larger lenders and then sold to Fannie Mae.

In this case, the consumers appeared to have intentionally exaggerated their assets and down payments in order to qualify for the mortgage loans, but were they aware of how serious their exaggerations were? Similarly, the appraiser appeared to have intentionally inflated the properties' appraised values. Was the appraiser aware that conspiring with the loan officer and borrowers made him an accessory subject to law enforcement prosecution?

In another recent case, consumers were induced to rent their credit to what they were told was an investment club. They attended a meeting at a local hotel, provided their Social Security Numbers and signed blank documents. In return, they received checks for as much as \$5,000. A few months later, two of the consumers were rejected for a car loan because their credit report showed significant mortgage delinquencies. As it turned out, unbeknownst to them, they were used as straw buyers to purchase multiple properties in another state – over 1,000 miles away. The investment club was actually a property-flip scheme used to unload over 100 properties at excessive prices.

In such mortgage fraud schemes, it does not matter what the product or the pricing is. Perpetrators often go for the most efficient pricing and easily fabricate whatever documents are needed. Yet, the consumers caught up in such schemes are often the most aggrieved victims of the real estate finance system.

Our experience indicates that consumers and all professionals in the mortgage process, including real estate agents, mortgage brokers, lenders, appraisers, and title agents, must become better educated about common mortgage fraud schemes and not inadvertently conspire with the perpetrators of those schemes. Clearly expressed ethical standards, applied consistently, make a significant difference to honest consumers and real estate professionals who are susceptible to the attractive solicitations of perpetrators. The FBI and the Mortgage Bankers Association (MBA) recently acknowledged as much when they collaborated on a one-page voluntary notice that warns consumers that misrepresenting personal financial information constitutes mortgage fraud. A copy of that notice accompanies this statement.

<http://www.fbi.gov/pressrel/pressrel07/mortgagefraudwarning.pdf>

In light of these concerns, we hope the Board will consider the importance of consumer education specifically related to anti-fraud education and best practices.

Fannie Mae utilizes a balance of enforcement, education and information-sharing to address mortgage fraud, product suitability and predatory practices. In 2006, Fannie Mae completed over 25,000 loan-file underwriting reviews, over 18,000 specialized predatory lending reviews and 98 case investigations involving over 7,500 loans. We also referred 301 unacceptable appraisal reports to the appropriate state licensing boards. On the education front, we have participated in 85 anti-fraud events since January of 2006, partnering with non-profits, government agencies, trade groups and our lender customers to reach over 10,000 lenders, brokers, appraisers, real estate agents and title company professionals. Our goal with these outreach efforts is to share information about fraud schemes and to collaborate broadly on prevention strategies. A two-page summary of Fannie Mae's anti-fraud tools and red flags accompanies this statement.

<https://www.efanniemae.com/utility/legal/pdf/antifraudstriper.pdf>

In closing, please allow me again to emphasize that mortgage fraud knows no favorite product or pricing scheme. Perpetrators utilize whatever products are available and fabricate whatever documentation they need to make deals work. They exploit gaps in the mortgage process, and when one gap closes they find another. Consumers must approach mortgage loan applications responsibly and honestly to avoid becoming unwitting victims or conspirators, and all professionals involved in the mortgage process must match the perpetrators' imagination and creativity in order to skillfully prevent their success. Whatever the Board can do to help will be much appreciated.

Thank you again for the opportunity to participate in this hearing. I look forward to your questions.